



Financial Affairs Committee
May 16, 2003

1. Participants

--Ron Jacobsma, FWUA	--George Senn, CVPWA
--Russell Harrington, Westlands WD	--Robert Stackhouse, CVPWA
--Lynn Hurley, SCVWD	--Chase Hurley, Panoche WD
--Alan Thompson, EBMUD	--Frances Mizuno, SLDMWA
--Dennis Michum, GCID (Call-in)	--Mike Hagman, TCCA
--Ed Roman, SMUD	--Lee Emrick, Colusa County WD
--Brice Bledsoe, Contra Costa WD (Call-in)	--Ara Azhderian, San Luis WD (Call-in)
--Cheryl Pritchett, SCVWD (Call-in)	--Kathy Santos, FWUA
--Bernice Sullivan, FWUA	--Eric Limas, Lower Tule River ID
--Larry Bauman, BOR	--Jeff Phipps, NCPA

2. Opening Business

The May meeting was held in the ACWA Office upstairs Conference Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded around 12:45 p.m. The next meeting will be held on July 25 at a still to be decided location near the Banta Carbona Fish Screen facility.

Other Business.

Ron Jacobsma began a discussion regarding filling his FAC Chair position during his tenure as the acting FWUA General Manager. He explained that he will be extremely busy during the next few months and suggested that we look to fill the position at least temporarily until such time as the new FWUA General Manager is selected. The group suggested that he step back from the various FAC subcommittee responsibilities he currently is engaged in but retain his position as the FAC Chair, relying more on the Vice Chairs to fill the void. He agreed to continue in this limited role. The issue will be revisited in July.

3. FAC Issues Matrix Status.

A. Capital Ratesetting and Cost Recovery. Larry reported that Reclamation had sent out an e-mail and attachment in March 2003, to all members of this committee, outlining the process that would be followed to move forward with the capital and deficit rate setting work and asking for comments. Reclamation has not received any comments. Several FAC members indicated that they did not receive this document and Larry agreed to

resend it to the committee. Ron said that he had comments regarding the capital rate setting letter and he agreed to resurrect them and forward them to Reclamation within the next few days. Larry said that the capital rate setting work has been on hold due to work on the CVPIA cost recovery issues, but he expects to get the work going again within the next month or so. Larry also acknowledged and appreciated the willingness of Lynn Hurley and Anthea Hansen to assist in the tedious number crunching process.

- B. **PUE Issues--Post 2004 O&M Sub-allocation.** Larry reported that Martin Bauer had completed a draft report on May 11, 2003, regarding the work the Post 2004 Power O&M Cost Sub-allocation team had recently completed. Reclamation management was briefed on the results and the draft report was provided to all committee members. Larry said that comments relative to the report are due on May 16 (today) and pointed out that Reclamation and Western had a conference call on May 15, 2003, to discuss their concerns and comments. Ed Roman explained how the purchase power proposal offered by the Preference Power contractors would work and he emphasized that the exit fees that PG&E intends to levy on all non-hydro power delivered through its system are not part of the purchase power proposal. He said that he expected the exit fees to be minimal and suggested that the PUE customers join with the Preference Power customers to oppose the application of any exit fees to PUE loads. Ed Roman said that the proposal is based on the current build out of the CVP facilities and any significant changes to the CVP system such as Sites Reservoir would require the agreement to be reopened. It was pointed out that Reclamation made no commitment to reopen the cost allocation methodology or the purchase power proposal—there is nothing in writing that would require a reopening of the sub-allocation factors.
- C. **Reclamation Water Accounting Program Development.** Larry reported that the new water accounting system (BOR WORKS) is working well and that Reclamation discontinued inputting monthly water data (except any outstanding prior adjustments) into the old WORKS water accounting program effective May 1, 2003. On April 29, Reclamation put on a workshop for those water contractors and/or representatives who had been working with Reclamation and JAVIS (the BOR WORKS software developer) during the program development process, on the Web-enabled portion of the BOR-WORKS water accounting system. Based on the interest and assistance of Tona Mederios and Laurie Rouche (SLDMWA) at that workshop, a second workshop was held on May 13, 2003, at the San Luis Delta-Mendota Water Authority. Ron indicated that he would work with Reclamation to bring the BOR-WORKS workshop to the FWUA. Larry said that Reclamation welcomes comments relative to the Web-enabled version of the program and indicated that comments received will be reviewed and, if determined appropriate, added to a prioritized list of work currently being addressed by Reclamation's IT staff. One specific comment that was addressed at the April 29, 2003, workshop was concern that the current Web-enabled system requires the same data to be entered twice, once by the water contractor upon original entry and then by the Area Office once the data has been reviewed and approved for entry into the system. Larry indicated that although this was an area that was planned in the original JAVIS design, it never materialized and that this is one of the items that is currently on the prioritized list of work to do.

4. **Status of USBR FY2002 Final Accountings.** Larry reported that the fiscal year 2002 M&I accountings have been completed with the exception of the Provision for Replacement interest adjustments and the interest calculation and that they will be sent out for review within the next week or so. The Irrigation accountings are still being worked on and should be available early next month.
5. **Provisions for Replacement Adjustments (PFR).** Larry said that the PFR adjustments are proving to be a lot of work (consuming the last 3 plus months) for the ratesetting staff. By way of background, a PFR expense had been included in Reclamation's annual expenses and thus included in the annual water accounting for years. As a result of the Mid-Pacific Region's own initiative, they challenged Reclamation's Denver Finance office on the need to be the only Regional office to book these expenses and won. As a result, the PFR expense needs to be removed from the annual accountings. To assist in reducing the amount owed by the water contractors for the recent CFO audit adjustment, Reclamation offset these amounts by the principal PRF amount and indicated that they would determine any interest adjustment as part of the overall adjustment. To date the PFR adjustment has been completed for 87% of the water contractors who opted to pay the CFO audit adjustment with surpluses from the 2001 and 2002 water years. Only 13% of the PFR adjustments have been completed for those who opted to pay the CFO audit adjustment over the five-year time period 2003-2008. Reclamation's priority is to complete the PFR adjustments for those who chose to apply surpluses from the 2001 and 2002 years.
6. **CFO Audit Adjustment: Suisun Marsh.** Russell Harrington questioned why none of the Suisun Marsh costs were allocated to water quality—a non-reimbursable project cost. He said that improvements to water quality are non-reimbursable but costs to mitigate water quality are to be recovered through the cost allocation process, and therefore some of the costs should be allocated to water quality (non-reimbursable). Bob Stackhouse commented that the Suisun Marsh facilities do not provide water quality in the Delta, but rather water from upstream is released to provide for the water quality needed in the Delta where the Suisun Marsh facility is located. Lynn Hurley pointed out that New Melones is the only CVP facility that has a water quality function. Brice Bledsoe said that he would contact Craig Stroh, BOR cost allocation staff, to find out his thinking on this issue. We would pursue the issue further based on what Craig has to say.
7. **Water Transfer Policy.**
 - A. Incremental Costs. Larry said that Donna Tegelman (MP-400) is heading a Reclamation team to define what incremental costs are as they apply to water transfers. They have met once and will be developing an internal paper on these issues. Larry indicated that although he had a conflict and wasn't able to attend the kickoff meeting, he will be able to provide comments on the draft paper.
 - B. Project Use Power (PUP). Bob Stackhouse said that the water and power contractors have met several times to develop a policy on the use of PUP for water transfers. Barry Mortimeyer is responsible for putting together a PUP policy paper. George was tasked with reviewing the last (November 4, 2002) PUP water and power contractor proposal and to

distribute the draft letter to members of the FAC for further review in anticipation of finalizing this letter and submitting the water contractors recommendation to Reclamation.

8. Reports of Ongoing FAC Interest Issues.

A. Status of Historical Contractor Accounting Reconciliation. Bob Stackhouse mentioned, and Larry concurred, that there has been an interest recently in resurrecting efforts to start finalizing historical accountings. Larry indicated that Reclamation would be open to taking another look at this issue but reminded everyone that the holdup last time was with the M&I contractors and as a result of their recent filing on the M&I Ratesetting policy he didn't think their position would change. Larry reported due to his staff time and efforts on getting BOR WORKS up and running, historical reconciliation has been on hold. However, Reclamation has recently positioned itself to start moving on this "old" task by (1) contracting with Jim Bjornsen, former Reclamation Rate-Setting Branch Chief, and (2) interviewing within a couple of weeks for an accountant position. Both of these positions will also be tasked in working on the historical reconciliation backlog.

B. Direct Funding Agreements. Ron said that there was nothing new to report.

C. Sumner-Peck Settlement. Russell said that there was nothing new to report.

D. Arroyo Pasajero. Russell reported that Westlands WD recently sent a letter to Reclamation requesting information regarding the reimbursability of funds paid by Reclamation as their share of the Arroyo Pasajero Flooding settlement. Westlands is still waiting for a response. Russell said a meeting is scheduled for May 28 at the Fresno Area Office to discuss ways to handle the flooding that occurs at the Arroyo Pasajero site. He said that Westlands has developed a proposal that would direct floodwater over an overshoot of the San Luis Canal allowing it to flow onto District lands that will be retired. This proposal is considerably less costly than others that are being considered.

E. Warren Act Revenue. Ron reported that there was nothing new to report.

9. CVPIA Cost Recovery Issues

A. Interpretation of 3406(b)(12). Jeff Phipps, NCPA, handed out a paper regarding the implementation of CVPIA 3406(b)(12) as it relates to Clear Creek Restoration. He contends that (b)(12) stipulates that the costs associated with providing flows for Clear Creek restoration should be allocated among the project (CVP) purposes. He said that because the increased flows into Clear Creek bypass the Spring Creek and Keswick power plants before discharging into the Sacramento River, power production available to preference power users is reduced—the value of which is estimated to be about \$1 million per year. He feels that the preference power users should be compensated for this lost power through reimbursement from the Restoration Fund, through offsetting power generation, through the cost allocation process, etc. Members of the FAC discussed this issue and will continue to give it further thought.

B. Trinity River Bridges Project. The group discussed the reimbursability of costs associated with the Trinity River Bridges Project. Russell pointed out Reclamation has gone

on record as stating that all costs associated with CVPIA 3406(b)(23) Trinity River Flow Evaluation Study shall be non-reimbursable. It is his understanding that the bridge project would be covered under (b)(23). Brice agreed to talk to Craig Stroh, Reclamation on this issue.

10. M&I Rate-Setting Policy. (Discussed in Executive Session)